

DOCKET SECTION

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

Postal Rate and Fee Changes, 1997

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Docket No. R97-1
POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

**NEWSPAPER ASSOCIATION OF AMERICA
INTERROGATORIES TO
OFFICE OF CONSUMER ADVOCATE WITNESS
ROGER SHERMAN (NAA/OCA-T300-1-6)**

January 20, 1998


The Newspaper Association of America hereby submits the attached interrogatories to Office of Consumer Advocate witness Roger Sherman (OCA-T-300) and respectfully requests a timely and full response under oath.

Respectfully submitted,

NEWSPAPER ASSOCIATION OF AMERICA

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CERTIFICATE OF SERVICE

I hereby certify that I have this date served the instant document on all participants of record in this proceeding in accordance with section 12 of the Rules of Practice.

January 20, 1998


William B. Baker

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NAA/OCA-T300-1. Please refer to the statement at the bottom of page 5 of your direct testimony.

"If cross elasticities of demand are zero, *as is true for most subclasses of mail*, the Ramsey price takes an especially simple form..." (emphasis added)

- a. Please indicate the evidence upon which you based your conclusion that the elasticities of demand are zero for most subclasses of mail.
- b. If two subclasses of mail offered very similar services, is it reasonable to conclude that the cross elasticities of demand are zero? Please explain fully.
- c. Consider Standard A ECR mail and Standard A Regular mail. Both subclasses contain automated presorted letter mail. Is it reasonable to conclude that the cross elasticities of demand are zero for these two subclasses of mail? Please explain fully.

NAA/OCA-T300-2. At page 17 of your direct testimony, you state that "[t]he Postal Service must serve goals beyond economic efficiency."

- a. In your view, what weight should these non-economic goals receive in the rate setting process?
- b. Did you consider what level of welfare loss is acceptable to achieve these non-economic goals of the Postal Reorganization Act? If so, please state the dollar amount of welfare loss that you find acceptable to meet the non-economic goals specified in the Act.

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NAA/OCA-T300-3. Please refer to page 21 of your direct testimony. Assume that there is a positive and significant cross price elasticity between Standard A ECR mail and Standard A Regular mail. What effect would this cross elasticity of demand have on the "Pure Ramsey" results in Column (1) of your table?

NAA/OCA-T300-4. Please refer to page 26 of your direct testimony. You state that "[I]t should be noted that these estimates still depend on the demand functions that have been estimated and are assumed to hold." Is it reasonable to assume that the demand functions will hold when some of the average rates shown in Table 3, notably for Periodicals, are far in excess of the historic rates used to estimate the demand equations? Please explain your response fully.

NAA/OCA-T300-5. Please refer to page 41 of your direct testimony. You state:

"Cross elasticities lack this stabilizing property of own-price elasticities, because they simply intrude into other markets. When they are large they can overwhelm the own-price effects and prevent an equilibrium, which, in turn, can prevent the calculation of Ramsey prices."

- a. If there exist significant, positive cross elasticities of demand among two or more of the subclasses shown in Table 3 at page 21, could these cross elasticities prevent the calculation of Ramsey prices? Please explain why or why not.
- b. If the existence of significant, positive cross elasticities of demand prevented the calculation of Ramsey prices, how do you recommend setting the prices for the subclasses affected?

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NAA/OCA-T300-6. Are you recommending that the Commission adopt any form of Ramsey pricing in this proceeding? If so, please state specifically what you are recommending the Commission adopt in this proceeding.